

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Umsobomvu Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Umsobomvu Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Umsobomvu Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Revenue from non-exchange transactions

3. The municipality did not have adequate systems in place to account for revenue from non-exchange transactions in accordance with GRAP 23, *Revenue from non-exchange transactions*, as the municipality did not recognise fines, penalties and forfeits on the accrual basis of accounting. I was unable to determine the full extent of the understatement on revenue and receivables from non-exchange transactions as it was impractical to do so. This also has an impact on the surplus and on the accumulated surplus in the financial statements.

Revenue from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence regarding service charges, as the municipality did not provide the supporting documentation relating to indigents for auditing. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to revenue from exchange transactions stated at R53 477 994 in note 20 of the financial statements were necessary.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

6. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2018 has been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Uncertainty relating to the future outcome of exceptional litigation

9. With reference to note 41 to the financial statements, the municipality is the defendant in a claim lawsuit. The ultimate outcome of the matter could not be determined as the litigation is still ongoing and no provision for any liability that may result was made in the financial statements.

Material impairments – receivables from exchange transactions

10. As disclosed in note 5 to the financial statements, material impairments of R135 608 084 (2018: R129 415 609) was incurred as a result of poor outstanding debt collections.

Material losses – water and electricity

11. As disclosed in note 49 to the financial statements, material water losses of R2 242 055 (2018: R 4 794 150) was incurred which represents 53.19% (2018: 37.36%) of total water purchased and electricity losses to the amount of R 7 237 122 (2018: R 3 983 428) was incurred which represents 30.48% (2018: 14.68%) of total electricity purchased. The electricity losses relate to the dissipation when the electricity flows through the conductors, illegal connections, meter tempering and incorrect metering. The water losses occur due to the leakages, the tampering of meters, incorrect ratios used on bulk meters, faulty meters and illegal water connections.

Other matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and the Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the financial statements, the accounting officer is responsible for assessing the Umsobomvu Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Objectives	Pages in annual performance report
Objective 5: Ongoing maintenance of municipal infrastructure	X - X
Objective 6: Provide appropriate services to all households	X - X
Objective 7: Provide quality and sustainable municipal infrastructure within available resources	X - X

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the reliability of the selected objectives are as follows:

Objective 5: Ongoing maintenance of municipal infrastructure

Various indicators

24. The reported achievements in the annual performance report did not agree to the supporting evidence provided for the targets listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator number	Indicator description	Reported achievements as per the APR	Audited value
TL 25	60% of the Road Transport maintenance budget spent by 30 June 2019	90%	436%
TL 26	60% of the electricity maintenance budget spent by 30 June 2019	121%	95%
TL 27	60% of the Water Management maintenance budget spent by 30 June 20189	60%	74%

Indicator number	Indicator description	Reported achievements as per the APR	Audited value
TL 28	60% of the Waste Water management maintenance budget spent by 30 June 2019	60%	47%

Objective 6: Provide appropriate services to all households

Various indicators

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators listed below as reported in the annual performance report.

Indicator no.	Indicator description	Planned target	Reported achievement per APR
TL 32	Spend 100% of the library grant by 30 June 2019	100%	88,69%
TL 35	Provide free basic electricity to indigent households as at 30 June 2019	1600	1661
TL 36	Provide free basic water to indigent households as at 30 June 2019	1600	1983
TL 37	Provide free basic sanitation to indigent households as at 30 June 2019	1600	1893
TL 38	Provide free basic refuse removal to indigent households as at 30 June 2019	1600	1959

Objective 7: Provide quality and sustainable municipal infrastructure within available resources

Various indicators

26. The reported achievements in the annual performance report did not agree to the supporting evidence provided for the targets listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator number	Indicator description	Reported achievements as per the APR	Audited value
TL 29	Conduct a study to research the viability to supply electricity to commercial farmers and submit a report with recommendations to Council by 30 June 2019	1	0

Indicator number	Indicator description	Reported achievements as per the APR	Audited value
TL 41	Number of formal residential properties connected to the municipal electrical infrastructure network and billed for the service as at 30 June 2019	3030	438
TL 46	Limit unaccounted for water to less than 40% by 30 June 2019	27%	80%
TL 52	90% spent of the total amount budgeted by 30 June 2019 for the Noupoot electrical network	100%	57%
TL 53	90% spent of the total amount budgeted by 30 June 2019 to upgrade Van Der Waltsfontein pipeline	28%	95%

Other matters

27. I draw attention to the matter below.

Achievement of planned targets

28. Refer to the annual performance report on pages XX to XX for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraphs XX to XX of this report.

Report on the audit of compliance with legislation

Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

30. The material findings on compliance with specific matters in key legislations are as follows:

Annual Financial Statements, performance and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, revenue and expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure Management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R7 964 308 as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management requirements.

Revenue management

34. An effective system of internal control for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

35. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA

Strategic planning and performance management

36. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

Procurement and contract management

37. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by supply chain management regulation (SCM) 17(a) and (c). A similar finding was identified in the prior year.
38. Awards were made to providers whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Utilisation of grant

39. I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure Grant and Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 1 of 2018).

Other information

40. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

41. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
42. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

Internal control deficiencies

44. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
45. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
46. The financial statements and the annual performance report had material uncorrected misstatements on certain sections which are attributable to the weaknesses in the design and implementation of internal controls and lack of review processes.
47. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

P.P. Auditor General

Kimberley

12 December 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Umsobomvu Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.